



# DEATH BENEFITS

Information  
for Participants  
and Beneficiaries

*December 2010*

# **TSP Website**

**www.tsp.gov**

## **ThriftLine**

**1-TSP-YOU-FRST**

**(1-877-968-3778)**

**(Toll free from the United States  
and Canada)**

## **All Other International Callers**

**(Not toll free)**

**404-233-4400**

## **TDD**

**1-TSP-THRIFT5**

**(1-877-847-4385)**

**(Toll free)**

## **References for Participants\***

- Form TSP-3, Designation of Beneficiary
- 5 C.F.R. Section 1651.2 (a) — order of precedence
- TSP tax notice “Important Tax Information About Thrift Savings Plan Death Benefit Payments”

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\* If you are an account holder of a beneficiary participant account (i.e., an account you inherited as the spouse of a deceased TSP participant), please refer to the booklet *Your TSP Account: A Guide for Beneficiary Participants* to learn how the TSP death benefit rules apply to your account.

# TSP Death Benefits:

## The Participant

As a participant in the Thrift Savings Plan (TSP), you will likely accumulate a sizeable amount of money in your TSP account over the years. One of the things you need to think about **now** is, “Who will receive the money in my account when I die?” This may be an uncomfortable question, but it is very important not to put off decisions regarding who should receive your money. You need to take the time to ensure that your money goes where you want. You **cannot** rely on your will, prenuptial agreement, separation agreement, property settlement agreement, or court order to specify who will inherit your TSP account because the TSP **does not use** any of these documents to distribute death benefit payments.

With that in mind, let’s start by figuring out what you need to do right now. First, whom do you want to receive the money in your TSP account?

## Your Beneficiary Designation

**Form TSP-3.\*** A Designation of Beneficiary (Form TSP-3) gives you flexibility and control over who will receive the money in your account in the event of your death. You can designate one or more persons, a trust, a corporation, your estate, or another legal entity (including a foundation or charity) as the beneficiary(ies) of your account. You can also designate one or more contingent beneficiaries in case the primary beneficiary(ies) die(s) before you do. However, you cannot designate tertiary beneficiaries (i.e., “third-in-line” ben-

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\* If you are a member of the uniformed services and previously submitted Form TSP-U-3 to designate beneficiaries for your TSP account, that form is still valid unless you choose to cancel or update your beneficiary designation by completing a new Form TSP-3.

eficiaries who would be entitled to a share of your account if the primary and contingent beneficiaries die before you do) for a TSP account.

To designate beneficiaries, fill out the Designation of Beneficiary (Form TSP-3) and mail or fax it to the TSP at the address on the form. You can download Form TSP-3 from the Forms & Publications section of the TSP website ([www.tsp.gov](http://www.tsp.gov)), or, if you are still in Federal service or the uniformed services, you can obtain it from your agency or your service. The complete and valid form must be received by the TSP on or before the date of your death. Detailed instructions and examples accompany the form; be sure to read them carefully before you fill it out.

If you have both civilian **and** uniformed services TSP accounts and want to identify the same beneficiaries and shares for both accounts, you only need to complete one Form TSP-3. Otherwise, you must complete a separate Form TSP-3 for each account.

**Order of Precedence.** It may help you to know that if you do not file a valid Designation of Beneficiary (Form TSP-3) for your TSP account before the date of your death, your entire account will be distributed according to the following order of precedence required by law:

- To your widow or widower;
- If none, to your child or children equally, and to descendants of deceased children by representation;\*

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\* In this order of precedence, a child includes a natural child (even if the child was born out of wedlock) and a child adopted by the participant; it does not include a stepchild or a foster child who was not adopted.

**Note:** If the participant's natural child was adopted by someone other than the participant's spouse, that child is not entitled to a share of the participant's TSP account.

"By representation" means that if a child of the participant dies before the participant dies, then that child's share will be divided equally among his or her children.

- If none, to your parents equally or to the surviving parent; \*\*
- If none, to the executor or administrator of your estate; or
- If none, to your next of kin who is entitled to your estate under the laws of the state in which you resided at the time of your death.

**Spouse Beneficiary.** In the event of your death, if your spouse is entitled to a share of your account, a **beneficiary participant account** will be established for your spouse in his or her own name. If your spouse's share is **\$200 or more**, the TSP will maintain this beneficiary participant account, and the entire share will be invested in the Government Securities Investment (G) Fund until your spouse makes a different investment choice or chooses to withdraw the money as a single payment, monthly payments, annuity, or a combination of these options. If your spouse's share is **less than \$200**, the TSP will **not** maintain the beneficiary participant account. Instead, your spouse will receive a check for the payment.

**Reviewing Your Beneficiaries.** If you file a Designation of Beneficiary (Form TSP-3), it is a good idea to review how you have designated your beneficiaries from time to time — particularly when your life situation changes, for example, by marriage, divorce, the birth or adoption of a child, or the death of a beneficiary.

By law, the TSP must pay your properly designated beneficiary(ies) under **all** circumstances. For example, if you designate your spouse as a beneficiary, that spouse will still be entitled to death benefits if you separate or divorce from that spouse or remarry and do not change your beneficiary designation. This is true even if the

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\*\* A parent does not include a stepparent unless the stepparent adopted the participant.

spouse you designated gave up all rights to your TSP account(s). Consequently, if your life situation changes, or if any of your beneficiaries change their addresses or other identifying information, you may want to file a new Designation of Beneficiary form that cancels or updates your current beneficiary designation. A properly completed and submitted Designation of Beneficiary form will **automatically cancel or update** any previous Designation of Beneficiary forms for your TSP account.

When the TSP receives a new Designation of Beneficiary form from you, we will send you a confirmation notice showing the primary beneficiaries you have designated. Your quarterly TSP participant statement will show the date you signed your most recent Designation of Beneficiary form. Your annual TSP participant statement will display only your primary beneficiaries. To confirm your contingent beneficiary(ies), you may call the TSP ThriftLine.

Remember that a will, prenuptial agreement, separation agreement, property settlement agreement, or court order **will not** override either Form TSP-3 or the order of precedence.

**Taxes on Death Benefit Payments.** When you designate beneficiaries for your TSP account, you should be aware of the tax consequences to them in the event of your death. We suggest you read the tax notice "Important Tax Information About Thrift Savings Plan Death Benefit Payments." This information may be helpful in developing instructions so that your spouse, executor, or other person knows what to expect.

## Other Information

**Agency Automatic (1%) Contributions.** If you are a FERS employee and you die before separating from service, any non-vested Agency Automatic (1%) Contributions in your account will immediately become vested.

**Loans.** If you die with a TSP loan or loans outstanding, death benefit payments from your account cannot be distributed until the outstanding amount has been declared a taxable distribution. The loan will be declared as taxable income to your estate, not to your beneficiaries. Your estate or survivors cannot repay the loan.

**Court Order.** If there is a court order against your TSP account when you die, the court order must be resolved before any death benefit payments can be made to your beneficiaries.

**Withdrawal/Loan Requests.** If you die after submitting a loan or withdrawal request (e.g., Form TSP-20, TSP-70, TSP-75, TSP-76, or TSP-77), the TSP will not process the request if we learn of your death. Instead, the TSP will distribute death benefit payments from your account according to your Designation of Beneficiary form, or, in the absence of a Designation of Beneficiary form, according to the order of precedence outlined on pages 2-P and 3-P. (See the special rule in “Annuity Purchase” below.)

If the request has already been processed, the payment will stand, and the money cannot be returned.

**Annuity Purchase.** If you separate from service and submit a Request for Full Withdrawal requesting an annuity, and you die **before** annuity payments begin, the amount used to purchase the annuity will be returned to the TSP. The TSP will, if applicable, distribute this money consistent with your annuity beneficiary designation.

See the chart on pages 6-P and 7-P for more information regarding these rules.

## Death Benefit Payments

### **If the participant dies after requesting, but before receiving, a:**

Single life annuity with no cash refund or 10-year certain feature.

Single life annuity with a cash refund or 10-year certain feature.

Single life annuity with a cash refund or 10-year certain feature, but the beneficiary to the annuity portion of the withdrawal dies before the participant.

Joint life annuity, and the participant dies before the joint life annuitant.

Joint life annuity, but the joint life annuitant dies before the participant.

Joint life annuity with cash refund, and the participant dies before the joint life annuitant.

Joint life annuity with cash refund, and the joint life annuitant dies before the participant.

Joint life annuity with cash refund and the joint life annuitant and the beneficiary both die before the participant.

# After Request for Annuity

The funds will be paid:
According to TSP-3 or order of precedence, as applicable.
To the beneficiary named on the annuity portion of the withdrawal request.
According to TSP-3 or order of precedence, as applicable.
To the joint life annuitant.
According to TSP-3 or order of precedence, as applicable.
To the joint life annuitant.
To the beneficiary named on the annuity portion of the withdrawal request.
According to TSP-3 or order of precedence, as applicable.





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**(Toll free)**

## **References for Beneficiaries<sup>1</sup>**

- Form TSP-17<sup>2</sup>, Information Relating to Deceased Participant
- TSP tax notice “Important Tax Information About TSP Death Benefit Payments”
- Form TSP-81, Death Benefit Election for a Beneficiary Other Than a Spouse
- Change of Address for a TSP Beneficiary form
- Request for Immediate Payment form<sup>3</sup>

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<sup>1</sup> If you are an account holder of a beneficiary participant account (i.e., an account you inherited as the spouse of a deceased TSP participant), please refer to the booklet *Your TSP Account: A Guide for Beneficiary Participants* to learn how the TSP death benefit rules apply to your account.

<sup>2</sup> For uniformed services participants, the -U- designated version of TSP forms should be used (e.g., Form TSP-U-17).

<sup>3</sup> Only applies to death benefit payments made from a beneficiary participant account.

# TSP Death Benefits:

## The Beneficiary(ies)

If you are the survivor of a deceased TSP participant, this is no doubt a very difficult time for you. We have written this part of the booklet to explain TSP death benefits, and to make the process of applying for them as easy as possible.

### Notifying the TSP

If a participant dies while still **actively employed** in Federal service, the participant's personnel or payroll office must report the participant's death to the TSP before the TSP can begin processing death benefits from the account.

If the participant dies after **separating from service** or is the account holder of a **beneficiary participant account**, a next of kin, legal representative, or other responsible person must report the participant's death to the TSP.

In either case, however, to begin the process, the participant's survivor(s) must submit Form TSP-17, Information Relating to Deceased Participant (TSP-U-17 for members of the uniformed services), to the TSP, along with a copy of the participant's certified death certificate citing the final cause of death. All sections of Form TSP-17 should be completed. This will inform the TSP (or confirm to the TSP) that the participant is deceased, and will provide information that will help the TSP locate the participant's potential beneficiaries. Form TSP-17 can be downloaded and printed from the TSP

website, under Forms & Publications; it is also available from the participant's agency or service personnel office.

## Determining Beneficiaries

**Form TSP-3.\*** If there was a valid Designation of Beneficiary (Form TSP-3) on file with the TSP on the date of the participant's death, the TSP account will be distributed according to that designation. Otherwise, the participant's account will be paid out according to the order of precedence required by law. (In the case of an annuity, see pages 6-P and 7-P.)

**Order of Precedence.** If there is no beneficiary designation on file, the participant's entire TSP account will be distributed as follows:

- To the participant's widow or widower;
- If none, to the participant's child or children equally, and to descendants of deceased children by representation;\*\*
- If none, to the participant's parents equally or to the surviving parent;\*\*\*

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\* If the participant was a member of the uniformed services and Form TSP-U-3 is the most recent Designation of Beneficiary on file, that form is still valid.

\*\* In this order of precedence, a child includes a natural child (even if the child was born out of wedlock) and a child adopted by the participant; it does not include a stepchild or a foster child who was not adopted.

**Note:** If the participant's natural child was adopted by someone other than the participant's spouse, that child is not entitled to a share of the participant's TSP account.

"By representation" means that if a child of the participant dies before the participant dies, then that child's share will be divided equally among his or her own children.

\*\*\* A parent does not include a stepparent unless the stepparent adopted the participant.

- If none, to the executor or administrator of the participant's estate; or
- If none, to the next of kin who is entitled to the participant's estate under the laws of the state in which the participant resided at the time of his or her death.

A will, prenuptial agreement, separation agreement, property settlement agreement, or court order **will not** override either Form TSP-3 or the order of precedence.

Once the TSP has determined the identity of the beneficiaries, the TSP will then mail them information about receiving benefits, including Form TSP-81, Death Benefit Election for a Beneficiary Other Than a Spouse (as appropriate), IRS Form W-4P, Withholding Certificate for Pension or Annuity Payments, Request for Immediate Payment form (as appropriate), and the TSP tax notice "Important Tax Information About Thrift Savings Plan Death Benefit Payments," which explains their tax obligations in detail.

## Death Benefits

**Spouse Beneficiary.** A **beneficiary participant account** will be established for a designated spouse beneficiary of a civilian or uniformed services TSP account. If that spouse's share of the deceased participant's account is **\$200 or more**, the entire share will be invested in the Government Securities Investment (G) Fund until the spouse makes a different investment choice or chooses to withdraw the money. The money in a beneficiary participant account is not subject to Federal income tax withholding until it is withdrawn. For more detailed information about beneficiary participant accounts, read the booklet *Your TSP Account: A Guide for Beneficiary Participants*.

**Note:** This provision is not available for a spouse beneficiary of a beneficiary participant account (i.e., the spouse of a remarried beneficiary participant).

If a designated spouse beneficiary's share of a deceased participant's civilian or uniformed services account is **less than \$200**, the TSP will not maintain the beneficiary participant account. Instead, the spouse will receive a check for the payment.

**Non-spouse Beneficiary.** A beneficiary who is not a surviving spouse cannot retain a TSP account. The death benefit payment will be made directly to the beneficiary or to an "inherited" IRA. (See page 6-B for more information.)

**Note:** A beneficiary of a beneficiary participant account (i.e., an account inherited by the spouse of a deceased TSP participant) cannot transfer or roll over a death benefit payment into any type of IRA or plan.

**Timing.** Payments are usually made 60 days after the beneficiary determination package is sent from the TSP or after the TSP has received all of the information it needs to make the payment, whichever is sooner. Beneficiaries must be identified and located, their Social Security numbers (or Employer Identification Numbers for estates or trusts) must be obtained and verified, and their addresses and dates of birth must be confirmed. However, all primary beneficiaries do not have to be paid before contingent beneficiaries receive death benefit payments.

Beneficiaries can request an accelerated payment by submitting the Waiver of Tax Notice Period (for death benefit payments from a civilian or uniformed services account) or Request for Immediate Payment form (for death benefit payments from a beneficiary participant account) that is in the beneficiary determination package.

Once a death benefit payment is made, the funds cannot be returned.  
(See 5 C.F.R. § 1651.14(i).)

**Change of Address.** If you are notified that you are a beneficiary, make sure to keep the TSP posted about any change in your address. You can use the Change of Address for a TSP Beneficiary form, which you will receive from the TSP, or you may write to the TSP. Be sure to include your name and Social Security number (SSN) in your letter, as well as the name and SSN of the deceased participant.

## Taxes

The tax consequences of receiving a TSP death benefit payment may be severe and are determined based on the recipient of the payment and the account from which the payment is made.

### **Civilian and Uniformed Services Accounts.**

Death benefits paid directly to the beneficiaries of a civilian or uniformed services TSP account may be subject to 20% mandatory Federal income tax withholding.

- A designated **spouse beneficiary** can avoid the mandatory withholding and tax liability by keeping the funds in the established beneficiary participant account (if the inherited share is **\$200 or more**), or by having the TSP transfer all or part of the eligible funds directly to a traditional individual retirement account (IRA) or eligible employer plan (including the spouse's own pre-existing TSP account). A spouse beneficiary may also be able to transfer, or roll over, the funds to a Roth

IRA, if eligible, but will have to pay taxes on the full amount transferred or rolled over to the Roth IRA. (See the TSP tax notice "Important Tax Information About Payments from Your TSP Account" for the definition, rules, and restrictions for a Roth IRA. You may also want to seek the counsel of a tax advisor.)

- A designated **non-spouse beneficiary** can avoid this withholding and reduce the tax liability by requesting that the TSP transfer all or part of the payment directly to an “inherited” IRA. An inherited IRA is established specifically for the purpose of transferring money inherited from a plan such as the TSP. Inherited IRAs may provide significant tax benefits because their required distributions can generally be spread across the lifetime of the beneficiary. However, the rules governing inherited IRAs are complicated, and there are restrictions. So **before** you make a decision to transfer money from the TSP into such an IRA, we strongly recommend that you discuss the details of your transfer with your tax advisor or your IRA provider. To transfer a death benefit payment to an inherited IRA or to request that it be deposited directly into your checking or savings account, complete Form TSP-81, Death Benefit Election for a Beneficiary Other Than a Spouse (TSP-U-81 for death benefit payments from a uniformed services account). You may not roll over a TSP death benefit paid directly to you into an IRA or plan.

**Beneficiary Participant Accounts.** Death benefit payments made to beneficiaries (both spouse and non-spouse) from a beneficiary

participant account are subject to 10% Federal income tax withholding and are fully taxable in the year distributed. These payments are made directly to the beneficiaries and cannot be transferred or rolled over into any type of IRA or plan.

**For more information, see the tax notice “Important Tax Information About Thrift Savings Plan Death Benefit Payments.”**

## Other Information

**Court Orders.** If there was a court order against the participant’s TSP account at the time of death, the court order must be resolved before any death benefit payments can be made to beneficiaries or, in some cases, before a beneficiary determination can be made.

**Outstanding Loans.** If the participant had a TSP loan outstanding at the time of death, no payment will be made to any beneficiary until the outstanding loan has been declared a taxable distribution and closed. The outstanding principal plus any accrued interest will be reported to the IRS as a taxable distribution to the participant’s estate. It will not be reported as income to the beneficiaries. The outstanding loan balance **cannot** be repaid.

**Withdrawal/Loan Requests.** If the participant requested a loan or withdrawal, the TSP will not process that request if we learn, before the payment is made, that the participant has died. Instead, the TSP will distribute the account according to the participant’s Designation of Beneficiary form, or, if none is on file, according to the order of precedence outlined on page 2-B. (See the special rule in “Annuity Purchase” on page 8-B.)

If the TSP has already made the payment, the money cannot be returned to the TSP.

**Annuity Purchase.** If the participant separated from service and submitted a Request for Full Withdrawal requesting an annuity, but died **before** the annuity payments began, the money used to purchase the annuity will be returned to the TSP. The TSP will distribute it according to the chart on pages 6-P and 7-P.